Annual Report

For Year Ending

December 31, 2001

Alberta
AUTOMOBILE
INSURANCE BOARD

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AUTOMOBILE INSURANCE
BOARD

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The Honourable Pat Nelson
Minister of Finance
224 Legislature Building
Edmonton, Alberta

Honourable Minister:

Pursuant to R.S.A. 1999, Chapter 1-5.1, the Insurance Act, Section 658(2), we respectfully submit herewith, the thirtieth report of the Alberta Automobile Insurance Board, for the year ending December 31, 2001.

J.M. Tweddle, Chairman

P.G. Galway

W.H. Gough

S.C. Fisher

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ALBERTA AUTOMOBILE INSURANCE BOARD

2001 ANNUAL REPORT

The Alberta Automobile Insurance Board, constituted under subsection 653(1) of the Insurance Act, is empowered under section 654 thereof to investigate any matters it thinks fit respecting automobile insurance in Alberta, and to approve rates charged by insurers for compulsory automobile coverage under the Motor Vehicle Administration Act.

RATES

Insurers conducting business in Alberta are required by the Insurance Act to report their experience to a Canadian statistical plan. The results are compiled annually in Insurance Bureau of Canada published statistical exhibits that are then analyzed by the Board's actuarial consultant. The most recent available results are for 2000. These analyses are used in weighted proportions with the insurers' own statistics and analyses performed by insurers' underwriting groups in considering proposals for rate changes.

There is a consistent pattern of deteriorating results dating from the mid 80s, particularly for Private Passenger vehicles. The phenomenon is attributable to the growth in compensation for bodily injury claims under third party liability and, to some extent in more recent years, under accident benefits coverage. Premiums for third party liability and accident benefits rose steadily through the 90s in response to rising claim costs, though competition tempered the process. The premium growth trend tapered off during 1999 and 2000 but resumed in 2001. Pricing for all categories of general insurance hardened in the latter part of 2001 though the impact will be more apparent in 2002.

MARKET

Premiums for third party liability and accident benefits on Private Passenger vehicles continue to increase in response to claims experience. The premium spiral abated somewhat during 1999 and 2000 but the latter part of 2001 saw insurers take steps to achieve premium adequacy. In contrast, collision and comprehensive coverage have yielded satisfactory results since the mid 90's. This development has in part offset the adverse results for third party liability and accident benefits.

Third party liability encompasses bodily injury and property damage. The area of concern is the persistent spiral in both average cost and frequency of bodily injury claims. It takes a number of years for third party liability bodily injury claims incurred in a given year to mature. Therefore, results for recent years are projected to their expected ultimate values based on historical observations of the maturation of claims. Expectations are that over the five years ending in 2000, the average compensation for a bodily injury claim will have increased 20% and frequency of this type of claim will have risen 11 percent. The climb in settlement amounts and frequency combines for a 33% increase in the claim cost per vehicle insured. In contrast, the average property damage claim will have increased by 25% while frequency of this type of claim will have actually fallen by 5 percent. For property damage, the claim cost per vehicle insured will have increased by 19 percent. Figures 1 and 2 track the changes in average claim costs and frequency of claims for a longer period of ten years ending in 2000. Figure 3 displays loss costs per vehicle insured, which are total losses divided by the number of vehicles insured. The figure relates the combined effect of average claim cost and frequency. Declining frequency of property damage claims continued to offset increasing average claim costs.

Over the past five years, the overall effect for third party liability coverage is a 32% growth in the average claim size while frequency will have declined 1 percent. The claim cost per vehicle insured will have increased by 30 percent. Bodily injury is expected to comprise 81% of total third party liability claim costs for 2000 compared to 79% for 1995. Figure 4 shows the change in average claim costs and frequency of third party liability claims over a longer ten year period.

Rising average claim costs and frequency have affected accident benefits in recent years. In the five years ending in 2000, the average claim cost will have increased by 24% and frequency of this type of claim will have risen by 19 percent. The claim cost per vehicle insured will have risen 47 percent. Compensation available under accident benefits coverage doubled for losses occurring as of October 1, 1995, contributing to increased average claim costs since 1996. There is a partial offset as the compensation is deducted from any third party liability claim. Figure 5 shows the change in average claim costs and frequencies of claims over a longer ten year period.

Frequency for collision claims diminished for a number of years but has gradually crept up over the past five years. Frequency of comprehensive claims continues to diminish. Over the same five year period, the average claim cost for collision will have increased by 26% while frequency will have increased 5 percent. The claim cost per vehicle insured will have increased by 32 percent. The average claim cost for comprehensive will have increased by 53% while frequency will have dropped 44 percent. The claim cost per vehicle insured will have dropped 15 percent. Recent results have not been as greatly affected by weather related catastrophes as some prior years. Figures 6 and 7 show the change in average claim costs and frequencies of claims over a longer ten year period. In summary, Figure 8 shows loss costs per vehicle insured for each coverage. All costs are in nominal dollars (unadjusted for inflation).

The standard market's criteria for acceptable risks respond to results. As loss experience improves, the underwriting criteria relax and more drivers gain access to the standard market. Criteria become more stringent as results deteriorate. A tightening of the market was apparent in the latter half of 2001.

Drivers with no recent losses or convictions enjoy ready access to the standard market. However, the industry that had competed with abandon for those drivers with a clear record for the past six or more years has changed their focus from market share to adequacy of pricing. Access to markets was traditionally more limited for drivers with some recent frequency of claims and convictions. These drivers are channelled into residual or non standard markets at higher premiums. The advent of new markets over the past few years has generated more choice and more competitive pricing for these drivers.

The Facility Association is the industry's mechanism for providing insurance to those consumers who are refused coverage elsewhere. The Board monitors the Association's program for all coverage. Their share of the Private Passenger market peaked at 6.5% for 1992. Market share dropped to 6.0% for 1993 and continued its decline to .94% for 2000. Though firm numbers are not yet available, it appears that the trend of declining market share reversed in 2001.

Figure 1

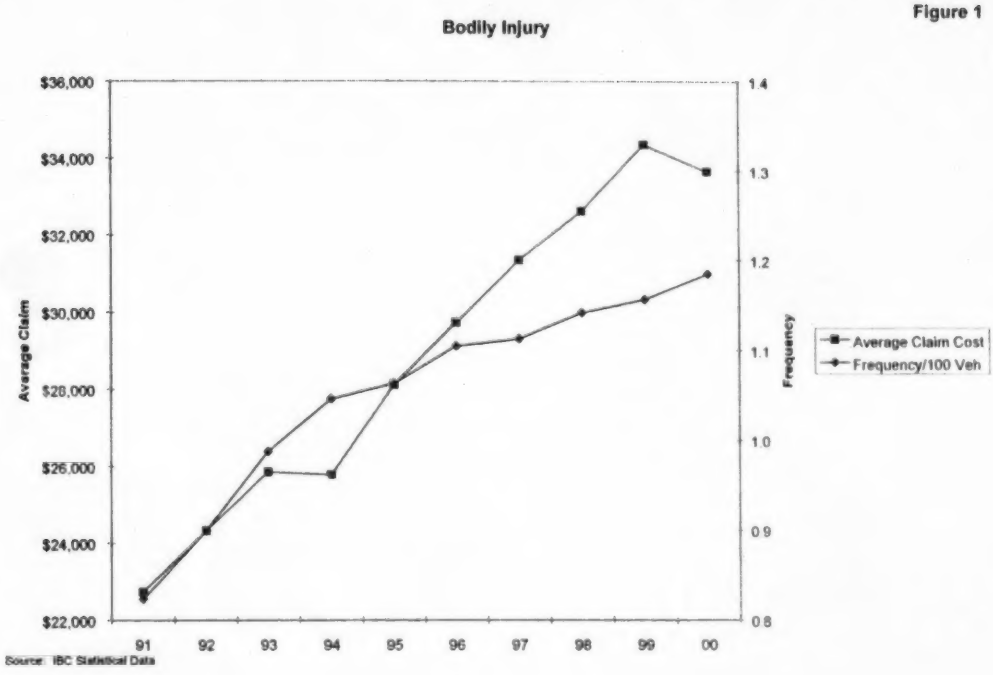


Figure 2

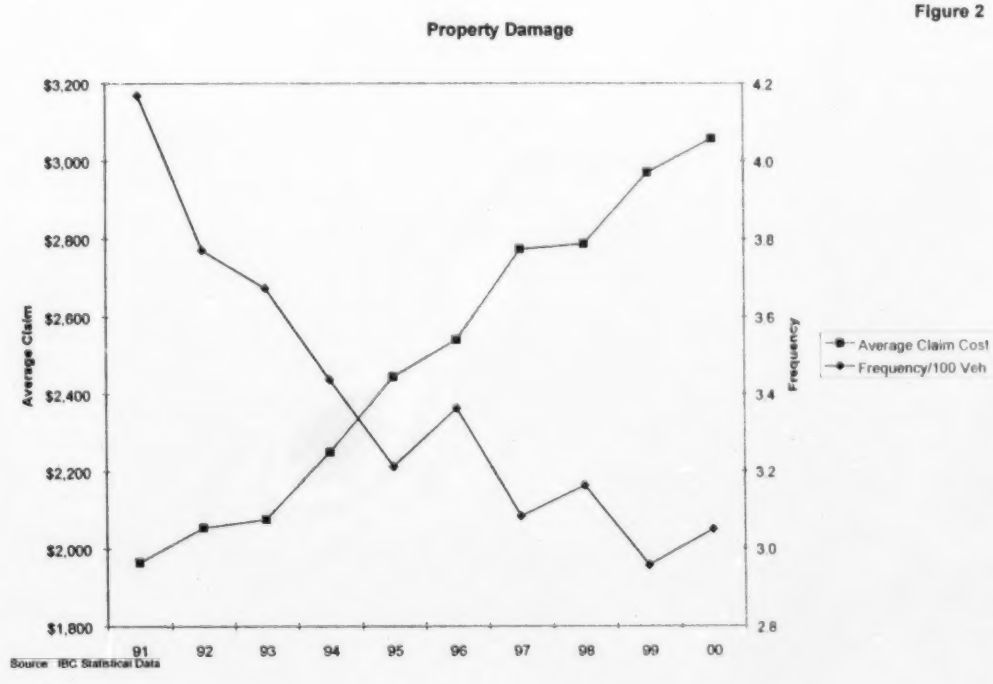


Figure 3

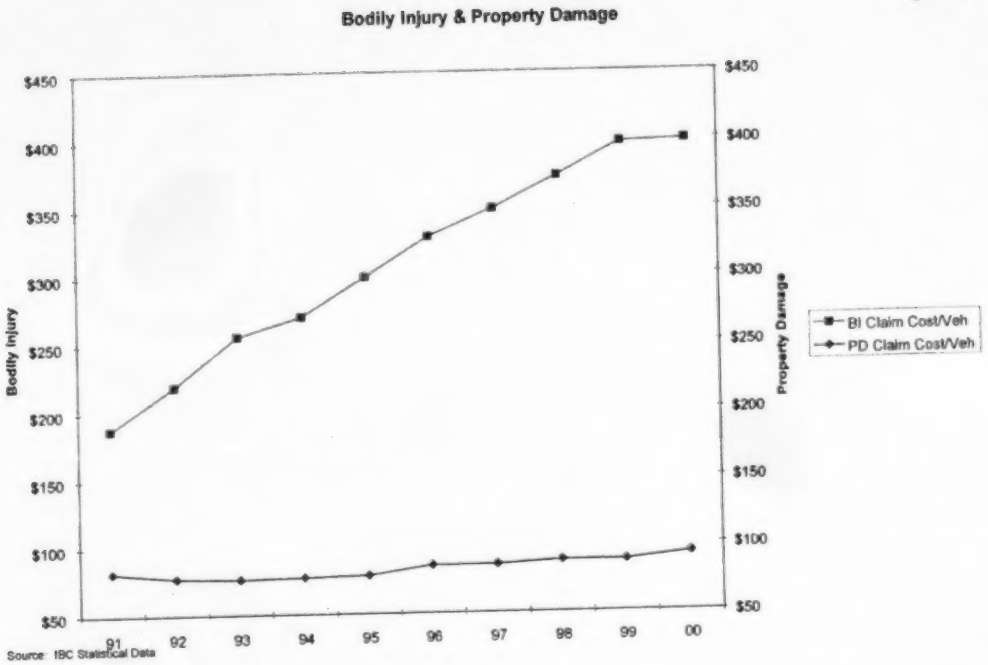


Figure 4

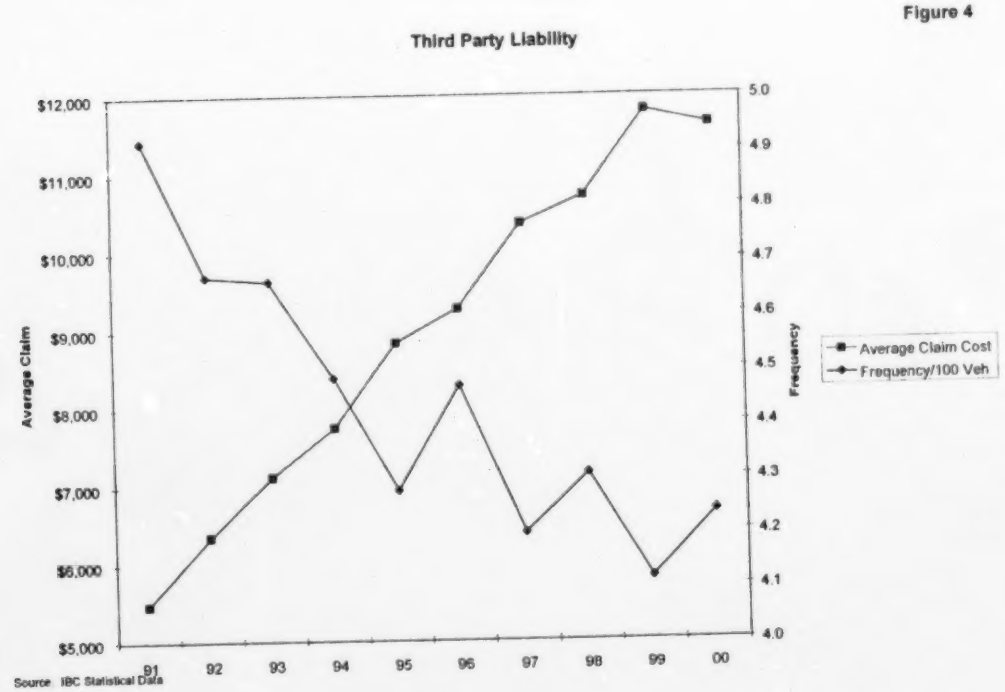
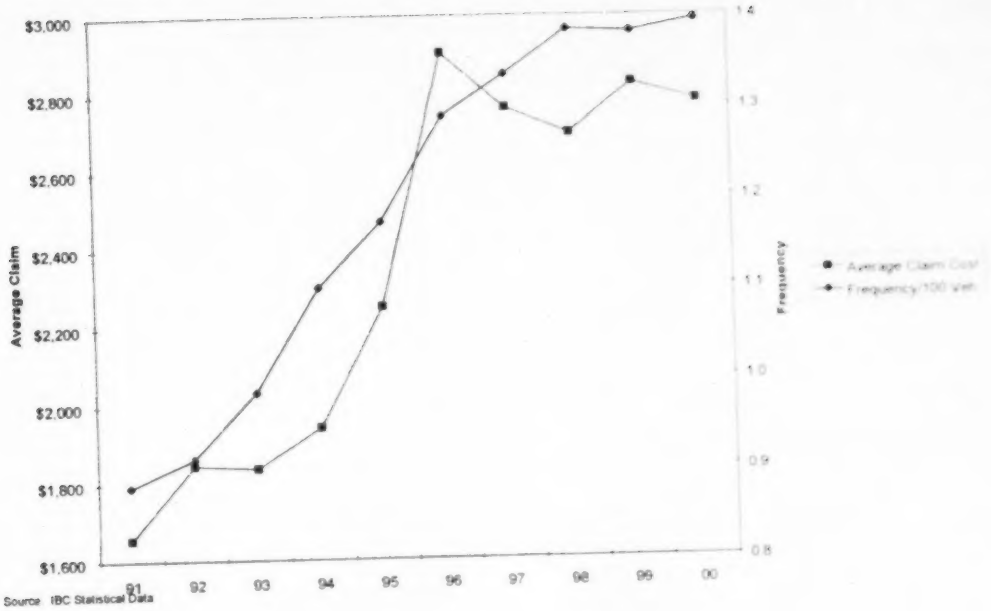


Figure 5

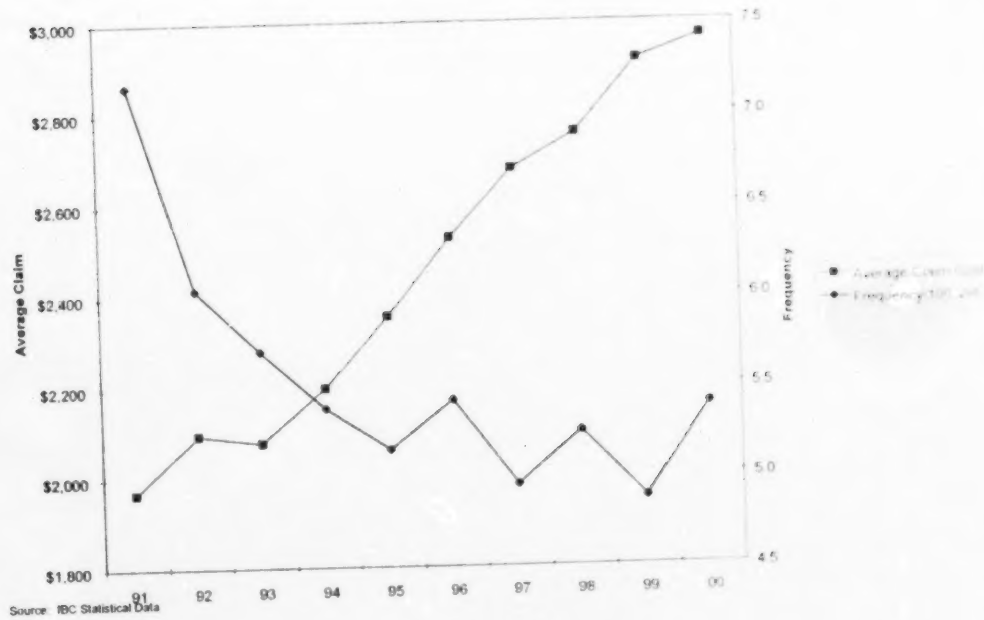
Accident Benefits



Source: IBC Statistical Data

Figure 6

Collision



Source: IBC Statistical Data

Figure 7

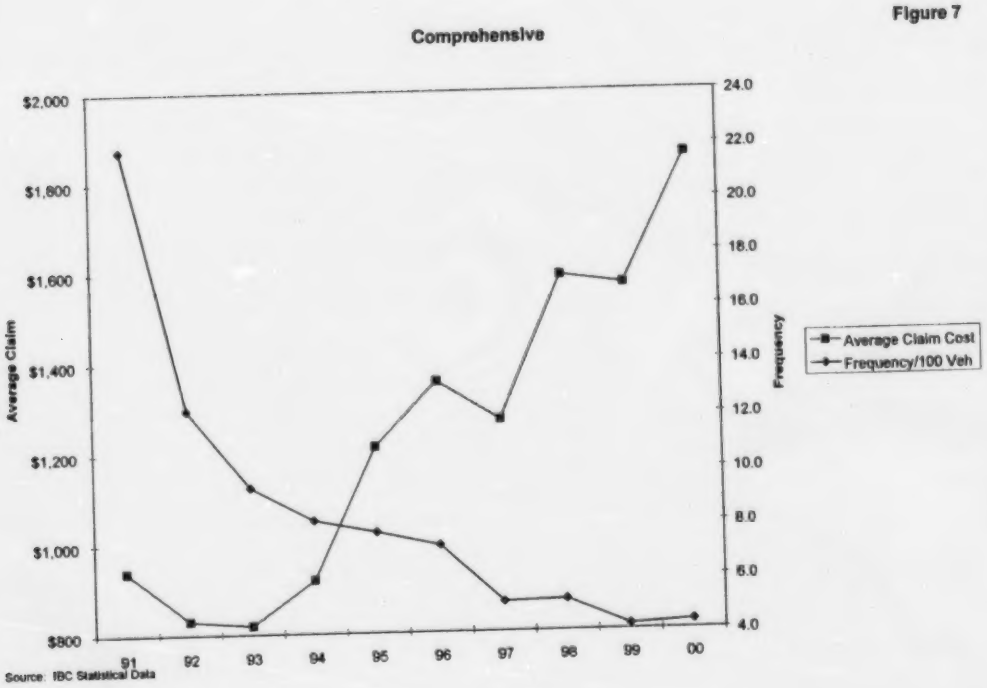
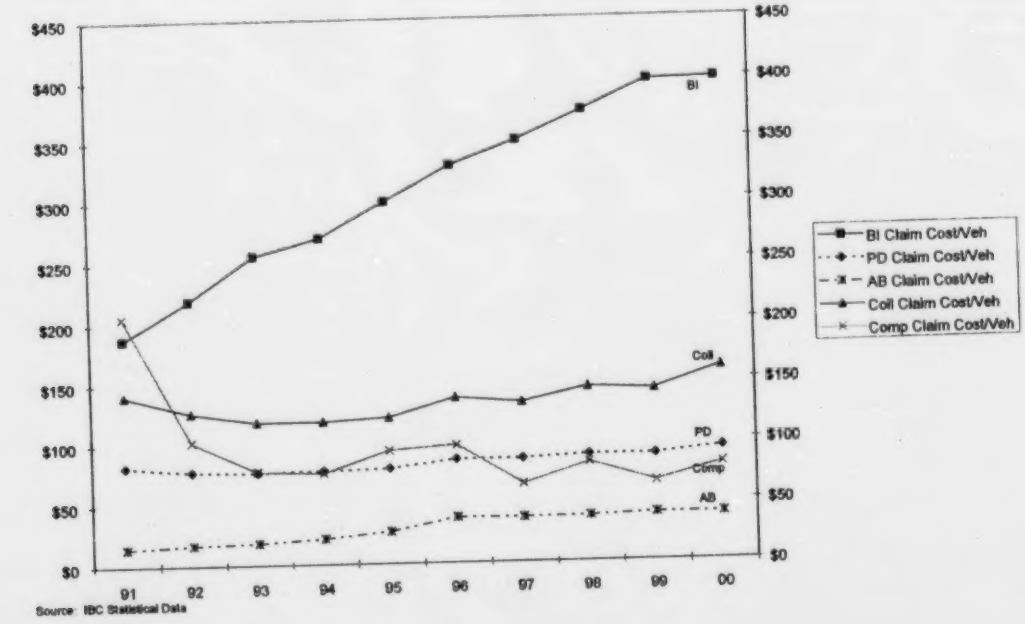


Figure 8



INQUIRIES

Inquiries and complaints are monitored for unfair and inequitable rules and practices. Complaints are assessed for compliance with rates and rules, and are resolved through representation to the insurer or provision of a detailed explanation. The Board office received 248 inquiries in 2001.

BENEFITS

The current compulsory third party liability limit of $200,000 places Alberta at a level at least equal to any other Canadian jurisdiction. However, the Board recognizes the critical importance of adequate limits and continues to maintain its recommendation of a compulsory limit of at least $300,000 that would involve an increase of up to 9% to the premium. An increase to $500,000 would involve an increase of up to 18% to the premium.

MEETINGS

In 2001, the Board held 8 meetings during which 149 applications were examined. This number compares with 127 applications in 2000, 123 in 1999, 128 in 1998, 125 in 1997 and 111 in 1996. Nine applications were declined of which seven were subsequently revised and approved. Fifty-six of the applications were approved subject to modifications.

LIAISON

The Automobile Insurance Board attempts to meet with executive members industry associations in order to maintain dialogue with the industry's various component groups. In 2000, they met with Facility Association and also attended the Canadian Insurance Congress.

STAFF

Susan Steeves is Administrator to the Board.

MEMBERSHIP ON THE BOARD

There were no changes during 2001.

GENERAL

Traffic Safety

A recurring topic in this and previous reports is the concern with the rising costs associated with injuries and fatalities. Logically, a reduction in the number and severity of injuries would have a positive effect on costs. The Board strongly supports traffic safety initiatives. The subject figured in a 1991 report dealing with pressures on premium as well as in previous annual reports.

The Board is encouraged by the sustained interest in traffic safety programs. The Government's "Think and Drive" continues to bring the traffic safety issue into the public forum. "Mission Possible" is a significant endeavor sponsored by a coalition of insurers and other partners, including government, with a vested interest in traffic safety.

In addition to conducting campaigns to raise general awareness on various issues, they sponsor initiatives to improve high accident frequency locations through engineering and enforcement.

Premium Stability

Injury claims remain the root cause of the escalation in third party liability premiums. A 1991 Board study found that the growth in bodily injury settlements was mainly responsible for the dramatic rise in third party liability claim costs that had emerged as a pattern since 1985. The section on Market details similar more recent history. Developments are consistent with the Board's earlier conclusion that there is nothing operating in the current compensation system to control bodily injury claim costs.

The Insurance Bureau of Canada is continuing to develop a proposal that insurers hope will result in some measure of tort reform. The Board supports efforts toward tort reform that would serve to temper claim costs.

The industry is also placing more emphasis on the need to combat fraud. The Canadian Coalition Against Insurance Fraud (CCAIF) commissioned a study released this year that estimates there is an element of fraud in 22% of accident benefits and 24% of bodily injury claims in Alberta. This translates into millions of dollars in additional claims expenses and ultimately impacts premium level.

Until the latter half of 2001, the market had remained competitive for drivers with acceptable driving records and further improved for what has been an under serviced non standard market. Accumulated deficiency in pricing that was further aggravated by diminished investment income motivated some insurers to shift their focus from market share to bottom-line considerations. World events created a sense of urgency and hardened resolve to improve corporate

performance. The initiatives taken in the late stages of 2001 will have more impact on consumers over the coming year.